

Final Results
RNS Number : 3355J
Saffron Energy PLC
29 March 2018

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Saffron Energy Plc (to be renamed Coro Energy Plc)

("Saffron" or the "Company")

Final Results

Saffron Energy, the pan Euro Asian gas explorer, announces its consolidated financial results for the financial year ended 31 December 2017.

During the period, the Company has:

- Made the following Board changes;
 - o Appointed James Parsons, Chief Executive Officer of Sound Energy plc and Chairman of Echo Energy plc, as Non-Executive Chairman of the Company
 - o Appointed Sara Edmonson as Chief Executive Officer of the Company
 - o Appointed Fiona MacAulay, Chief Executive Officer of Echo Energy plc, as a Non-Executive Director of the Company
 - o Appointed Marco Fumagalli, Managing Director of Continental Investment Partners, appointed as a Non-Executive Director of the Company
 - o David Garland has stepped down from the role of Chairman but remains on the Board as a Non-Executive Director until completion of the SEHIL acquisition
 - o Kevin Bailey has stepped down from the role of Non-Executive Director but remains on the Board as an observer until shareholder approval of the SEHIL acquisition

- o Michael Masterman and Christopher Johannsen both stepped down from the Board
- Extended its offtake agreement with Shell Italia to 1 October 2018
- Repaid approximately Euro 991,000 of short term shareholders' loans
- Was awarded the Production Concession for the Sant'Alberto gas field
- Initiated a reverse takeover process for the proposed acquisition of Sound Energy Holdings Italy Limited ("SEHIL") which is subject to shareholder approval at the General Meeting later today
- Initiated the leadership transition with the appointment of a new Board and subsequently with the appointment of key management personnel
- Completed the tie in of the Bezzecca gas field and commenced commercial production
- Announced a reduction in the remaining reserves of the Bezzecca gas field which resulted in an impairment of Euro 3.1m on the carrying value of this asset at 31 December 2017
- Improved performance at Bezzecca following a rig-less intervention which has led to positive improvements in production post year end
- Post period announced £14 million two-stage equity issue at market price and introduced Cornerstone Investor CIP Merchant Capital Limited alongside other Subscribers and Placees £13.4 million of funding is subject to shareholder approval
- New strategy announced post period focusing on multi-TCF gas exploration opportunities in South East Asia
Investors should note that a number of changes were proposed and completed in the period from December 2017 to 30 March 2018; specifically, later today, 29 March 2018, shareholders will vote on the proposed acquisition of SEHIL, funding and collective placements to raise GBP 13.4 million, change in company strategy to become a Pan Euro Asian explorer and name change from Saffron Energy to Coro Energy.
- Announced the appointment of James Menzies as Chief Executive Officer with effect from 1 May 2018

Chief Executive Officer of Saffron Energy, Sara Edmonson commented: "These results reflect the performance of our historic portfolio of three gas fields in Northern Italy. Our focus is now very much on driving the business forward from its Italian platform to identify exciting multi-TCF opportunities in South East Asia. To that end we have raised funds to support this new strategy and strengthened the senior team to provide the bandwidth and local knowledge required to take the company's next steps in that region. We are very excited about Coro's future and

look forward to updating investors on our progress."

The information contained within this announcement is deemed to constitute inside information as stipulated under the Market Abuse Regulations (EU) No. 596/2014. Upon the publication of this announcement, this inside information is now considered to be in the public domain.

For further information please contact:

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CHAIRMAN & CHIEF EXECUTIVE OFFICER'S STATEMENT

Following its Initial Public Offering in February 2017 as an Italian gas producer, Saffron Energy plc is now positioned as an exciting growth focused pan Euro Asian gas explorer.

Since its IPO, Saffron made solid operational progress, extending the Shell offtake agreement in Italy and securing first gas and commercial production at Bezzecca in addition to operating its existing production concession Sillaro. The Company also advanced its Sant' Alberto licence with the granting of a production concession in October 2017 whilst benefitting from very strong Mediterranean gas prices (achieving an average gas sales price of €19.62 per megawatt hour during 2017). Full year revenues came in at €1.389M.

Following the signature of heads of terms in October 2017, the Company will change

its name to Coro Energy Plc following approval by the shareholders at the AGM, secured £14M institutional funding, upgraded its Board and announced a two pronged strategy:

i) Italian consolidation and expansion

The SEHIL Acquisition will substantially increase the Company's hydrocarbon asset base and will create a balanced portfolio of production, development and exploration stage assets, along with the associated fixed plant infrastructure. The combined Italian portfolio will contain total 2P (Proved and Probable) gas reserves of approximately 205.10 MMscm and 2C (Contingent) gas resources of approximately 660.20 MMscm and total 2C oil resources of 2.40 MMbbls. The Directors believe that Italy remains an attractive market with gas and oil of high quality, an accessible and low-cost transportation network and a pricing environment that has been stable and higher than other comparable European countries.

ii) South East Asian exploration

South East Asia has some of the fastest developing economies in the world which combined with increasing regional gas shortages and recent underinvestment in exploration present a compelling investment proposition at this point in the cycle.

Building upon the expertise and connectivity of its new team, Saffron has therefore initiated an international growth strategy focused on multi Tcf (trillion cubic feet), low cost, onshore gas piped to high value, in growing South East Asian markets.

To facilitate its growth strategy, the Company has introduced a series of high profile Director and Management appointments including:

- Mr James Parsons was appointed to the Board as Non-Executive Chairman. James is currently CEO of Sound Energy Plc and Non-Executive Chairman of Echo Energy Plc. He has over 20 years' experience in the oil and gas industry having started his career with the Royal Dutch Shell Group in 1994.

- Mrs Fiona MacAulay was appointed to the Board as Non-Executive Director. Fiona is a Chartered Geologist and is currently CEO of Echo Energy Plc and brings with her over 30 years of experience in the oil and gas industry including prior roles as Chief Operating Officer and Technical Director. She is also the European President of the American Association of Petroleum Geologists.

- Mr Marco Fumagalli was appointed to the Board as Non-Executive Director. Marco is also a Non-Executive Director of Sound Energy Plc, Echo Energy Plc and CIP Merchant Capital Limited, the former of which

supported the company with a cornerstone investment of £6M post period end.

- Mr Ilham Habibie was appointed to the Board post period end. Ilham is Indonesian and has been the CEO and President of a number of aerospace and other companies which he founded as well as being a Non-Executive Director of Sound Oil Plc (now known as Sound Energy Plc).
- Mr James Menzies. James is a qualified geologist with over 30 years' experience in the oil and gas industry. He is a specialist South East Asian explorer who founded Salamander Energy Plc, serving as CEO for 10 years before selling to Ophir Energy Plc in 2015 in a transaction that valued the business at \$850M.
- Mrs Sara Edmonson stepped up to CEO from Non-Executive Director to lead the Company through the acquisition of SEHIL and post period end will take the position of Deputy CEO following the introduction of Mr James Menzies as CEO effective as of 1 May 2018. Sara was previously CEO of ASX listed Po Valley Energy Ltd.

James Parsons

Non-Executive Chairman

Sara Edmonson

Chief Executive Officer

28 March 2018

OPERATIONS REPORT

Production Assets

Production for the period was from the Company's Sillaro and Bezzecca gas fields. Bezzecca commenced commercial production in the second quarter of the year and in July increased further following the installation of a downhole choke.

Total Production for the year amounted to 7 million standard cubic metres of gas (circa 247 million standard cubic feet). Production in 2016 for the same period was 4.4 million standard cubic metres (circa 156 million standard cubic feet).

The development and tie in of the Bezzecca gas field was completed and commissioned in Q2 with first gas flows on 18 April and full commercial production commencing at a steady state from the Level A interval in mid-May 2017. Layer R

was not put on production due to unexpected water production even at limited rates. Over the first two weeks of July, layer S was added to production and produced in comingle with layer A. Well production rates and pressure were adjusted in order to allow for increased aggregate production from both levels. During 4Q 2017, the Bezzecca 1 well began to show signs of early water cuts in the reservoir. In order to prevent field production decline and increase overall production, the decision was made to perform a water shut off operation to open level R, which represented approximately 70% of the original total 2P reserves. Level R is circa 16 meters thick and was perforated at 4 different intervals with a relatively thick clay seal between the top two and bottom two perforations. The water shut off operation which targeted the bottom two perforations and the associated tests was deemed successful. Production restarted with layer R initially with at a rate of 18,000 scm/day with limited water production. Bezzecca-1 is currently producing from layer A at an average of 15,000 scm/day with limited water production.

Sillaro production from the current C0 level has exceeded the 3P estimates published at the time of the February 2017 IPO of Saffron Energy Plc. This level is near depletion and is expected to be fully depleted within June 2018. Increased production at Sillaro will be driven by a planned deviation well from Sillaro 1dir to access remaining reserves and contingent resources in the Miocene and Pliocene levels.

Development Assets

In Q3, the Company secured a full production concession for the gas field Sant'Alberto. The Sant' Alberto licence covers an area of 19.51km² and is located very close to the Sillaro field. It requires a simple development, involving the installation of a modular gas processing facility and connection of this gas processing facility to the Italian national grid. The processing facility will comprise a separation and hydration system, nitrogen generation and a tank/vent. Completion of this development is expected within 2018.

2018. The Sant' Alberto production concession has 2P Reserves of 2.0 bcf (59.5 MMscm) and production capability is expected to peak at 29,500 scm / day.

Post period end, CGG has completed an evaluation of Saffron's reserves and associated value. As at 16 February 2018, the Company's ownership in its three existing Italian licenses had 2P reserves of 186.1 MMscm (6.5 Bcf) and resources of 102.4 MMscm (3.6 Bcf).

Enzo Vegliante

Production and Development Manager

28 March 2018

FINANCIAL REPORT

During the 12 months to 31 December 2017, net production generated revenues of €1.389M. These revenue numbers were strengthened with the commercialisation of gas being produced from Bezzacca in the second quarter of the year. The Group's direct operating expenses were €1.117M, allowing the Group to make a small operating profit for the financial year in review.

Property, plant and equipment (comprising producing properties) as at end December 2017 stood at €2,148M while resource property costs, including exploration phase and production phase, stood at €1,904M. Non-cash impairments to the carrying value of the Group's assets have been provided for in the results for the year ended 31 December 2017 totalling €3.595M. Of this total impairment, €654k is against Sillaro and €2.941M against Bezzacca which is largely attributable to the sub-surface issues realised in the fourth quarter, which now appear to be resolved.

During the year, the Company raised total gross proceeds of £3,750,000. The Company raised £2,500,000 as it admitted to trading on AIM in February 2017. These funds were to be applied towards the development of the Company's two production licences and one near-term production concession. In September the Company raised a further gross amount of £1,250,000 with these proceeds being applied towards advancement and evaluation of new corporate growth opportunities as well as advancing initiatives to increase production at Sillaro and Bezzacca. A total of 85,907,500 new ordinary shares in the Company were issued over the period.

The Company continues to make repayment of vendor financing relating to the pipeline tie in for Bezzacca. This remains at a modest amount which is currently more than covered from production revenues and is paid monthly in equal instalments.

Post period end and in support of the proposed merger, new Board and launch of international growth strategy the Company announced it had secured conditional funding of £14,000,000. This was corner-stoned by new investor CIP Merchant Capital Limited. The Company closed a firm placing raising £561,138 with CIP in January 2018 and the balance of £13,438,862 remains conditional only subject to shareholder approval which is being sought contemporaneously with the approval for the proposed merger at the General Meeting scheduled for 29 March 2018.

Andrew Dennan

Chief Financial Officer

**STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017**

	NOTE	Group 31 December 2017 €'000	31 December 2016 €'000	Company 31 December 2017 €'000
Non-Current Assets				
Inventory		252	733	-
Loans to subsidiary	26	-	-	3,124
Investments	21	-	-	5,637
Deferred tax assets	12	1,995	1,995	-
Property, plant & equipment	15	2,148	2,337	-
Resource property costs	16	1,904	5,602	-
Other assets		72	138	-
Total non-current assets		6,371	10,805	8,761
Current Assets				
Cash and cash equivalents		365	107	262
Trade and other receivables	17	664	241	87
Total current assets		1,029	348	349
Total assets		7,400	11,153	9,110
Liability and equity				
Current Liabilities				
Trade and other payables	18	2,100	1,627	383
Borrowings	26	-	346	-
Provisions	19	38	52	-
Total current liabilities		2,138	2,025	383
Non-Current Liabilities				
Long term borrowings		-	1,446	-
Provisions	19	4,802	4,962	-
Total non-current liabilities		4,802	6,408	-
Total Liabilities		6,940	8,433	383
Equity				
Share capital	20	217	19,128	217
Share premium	20	13,748	-	13,748
Merger reserve	21	9,128	-	-
Accumulated losses		(22,633)	(16,408)	(5,238)
Total equity		460	2,720	8,727

Total equity and liabilities	7,400	11,153	9,110
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The Accounting Policies and Notes on pages 29 to 53 form part of these financial statements.

The financial statements were approved by the Board of Directors on 28 March 2018.

James Parsons
Non-Executive Chairman

**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017**

	NOTE	Group 31 December 2017 €'000	31 December 2016 €'000
Revenue	5	1,389	701
Operating costs		(1,117)	(440)
Depreciation and amortisation expense	6	(256)	(591)
Gross profit / (loss)		16	(330)
Other income		36	170
Employee benefits - corporate	8	(774)	(723)
Depreciation expense	6	(6)	(10)
Corporate overheads	7	(1,199)	(606)
Exploration costs expensed		(4)	(287)
Impairment losses	9	(4,844)	(4,615)
Loss from operating activities		(6,775)	(6,401)
Finance income		-	-
Finance expense		(252)	(71)
Net finance cost	10	(252)	(71)
Loss before income tax expense		(7,027)	(6,472)
Income tax expense	12		506
Loss for the period		(7,027)	(5,966)
Other comprehensive income		-	-
Total comprehensive loss for the period		(7,027)	(5,966)
Loss attributable to:			
Owners of the Company		(7,027)	(5,966)

Non-controlling interests	-	-
Loss for the period	(7,027)	(5,966)
Total comprehensive loss attributable to:		
Owners of the Company	(7,027)	(5,966)
Non-controlling interests	-	-
Total comprehensive loss for the period	(7,027)	(5,966)
Basic and diluted earnings per share (€)	13	(0.046)
		(0.85)

As permitted by s408 of Companies Act 2006, the Company has not presented its own income statement. The Company loss for the 14-month period to 31 December 2017 was €5,238k.

GROUP STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017

	Attributable to equity shareholders of the Parent				Total €'000
	Share capital €'000	Share Premium €'000	Merger Reserve €'000	Accumulated Losses €'000	
Balance at 1 January 2016	10,000	-	-	(16,202)	(6,201)
Total comprehensive loss for the period:					
Loss for the period	-	-	-	(5,966)	(5,966)
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the period	-	-	-	(5,966)	(5,966)
Contributions by owners	-	-	-	5,245	5,245
Issue of share capital	9,128	-	-	-	9,128
Balance at 31 December 2016	19,128	-	-	(16,408)	2,720
Balance at 1 January 2017	19,128	-	-	(16,408)	2,720
Total comprehensive loss for the period:					
Loss for the period	-	-	-	(7,027)	(7,027)
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the period	-	-	-	(7,027)	(7,027)
Transactions with owners recorded directly in equity:					
Contributions by owners	-	-	-	802	802
Group reorganisation (refer note 21)	(19,128)	-	9,128	-	(10,000)
Issue of share capital	212	14,212	-	-	14,424
Share based payments for services rendered (non-cash)	5	251	-	-	256
Transaction costs relating to issue of shares	-	(715)	-	-	(715)
Balance at 31 December 2017	217	13,748	9,128	(22,633)	460

COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE 14 MONTHS ENDED 31 DECEMBER 2017

	Attributable to equity Shareholders			Total €'000
	Share capital €'000	Share Premium €'000	Accumulated Losses €'000	
Total comprehensive loss for the period:				
Loss for the period	-	-	(5,238)	(7,174)
Other comprehensive income	-	-	-	-

Total comprehensive income for the period	-	-	(5,238)	(7,174)
Transactions with owners recorded directly in equity:				
Issue of share capital	154	4,270	-	4,424
Share based payments for services rendered (non-cash)	5	251	-	256
Share based payments for acquisition of subsidiary (non-cash)	58	9,942	-	10,000
Transaction costs relating to issue of shares	-	(714)	-	(714)
Balance at 31 December 2017	217	13,748	(5,238)	8,727

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017**

	Group		Company
	31	31	14 months
	December	December	ended 31
	2017	2016	December
NOTE	€'000	€'000	2017
			€'000
Cash flows from operating activities			
Receipts from customers	1,352	1,103	-
Payments to suppliers and employees	(3,191)	(2,610)	(362)
Interest paid	(47)	(1)	-
Net cash used in operating activities	(1,886)	(1,508)	(362)
Cash flows from investing activities			
Receipts for resource property costs from joint operations partners	128	522	-
Payments for resource property costs and production plant and equipment	(741)	(765)	-
Net cash used in investing activities	(613)	(243)	-
Cash flows from financing activities			
Proceeds from issues of shares	4,326	-	4,326
Transaction costs relating to issue of shares	(578)	-	(578)
Proceeds from borrowings	678	1,746	-
Repayment of borrowings	(1,669)	(2,297)	-
Loans to subsidiary undertaking	-	-	(3,124)
Net cash provided by / (used in) financing activities	2,757	(551)	624
Net increase / (decrease) in cash and cash equivalents	258	(2,302)	262
Cash and cash equivalents at the beginning of the year	107	2,409	-
Cash and cash equivalents at the end of the year	365	107	262

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

NOTE 1: CORPORATE INFORMATION

Saffron Energy Plc ("the Company") is a company incorporated in England in November 2016. The consolidated financial statements for the year ended 31 December 2017 comprises the Company and its interests in its 100% owned subsidiary and jointly controlled operations (together referred to as the "Group").

The Group is primarily involved in the exploration, appraisal, development of and production from gas properties in the Po Valley region in Italy.

NOTE 2: BASIS OF PREPARATION

(a) STATEMENT OF COMPLIANCE

The financial Statements are prepared in accordance with International Financial Reporting Standards and IFRIC interpretations as adopted by the European Union and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

(b) BASIS OF MEASUREMENT

These financial statements have been prepared on the basis of historical cost.

(c) GOING CONCERN

The financial statements have been prepared assuming that the Group will continue as a going concern. Under the going concern assumption, the entity is ordinarily viewed as continuing its business for the foreseeable future with neither the intention nor the necessity of liquidation, ceasing trading or seeking protection from creditors pursuant to laws or regulations.

The assessment has been made based on the Group's economic prospects, which included those of the proposed enlarged group, which have been included in the forecast, in particular for 12 months from the

date of approval of the financial statements.

Consideration has also been given in respect of development of the proposed fundraising. Based on the available information the Directors continue to adopt the going concern basis in the preparation of the financial statements.

(d) FUNCTIONAL AND PRESENTATION CURRENCY

The consolidated financial statements are presented in Euro, rounded to the nearest €1,000 (€'000), which is the Company's and the Group entities functional currency.

Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss as finance income or expense.

Non-monetary assets and liabilities denominated in foreign currencies are translated at the date of transaction.

(e) USE OF ESTIMATES AND JUDGEMENTS

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The Group based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market change or circumstances arising beyond the control of the Group. Actual results may differ from these estimates.

Estimates and underlying assumptions are based on complex or subjective judgments and past experience of other assumptions deemed reasonable in consideration of the information available at the time and are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Reserve estimates

Estimation of reported recoverable quantities of Proven and Probable reserves include estimates regarding commodity prices, exchange rates,

discount rates, and production and transportation costs for future cash flows. It also requires interpretation of complex geological and geophysical models in order to make an assessment of the size, shape, depth and quality of reservoirs, and their anticipated recoveries. The economic, geological and technical factors used to estimate reserves may change from period to period. The Group reserves and mineral resources based on information compiled by appropriately qualified persons relating to the geological and technical data on the size, depth, shape and grade of the reserve and suitable production techniques and recovery rates.

A change in any, or a combination of, the key assumptions used to determine the reserve estimates could have a material impact on the carrying value of the project via depreciation rates or impairment assessments. The reserve estimates are reviewed at each reporting date and any changes to the estimated reserves are recognized prospectively to depreciation and amortisation. Any impact of the change in the reserves is considered on asset carrying values and impairment losses, if any, are immediately recognized in the profit or loss.

Rehabilitation provisions

Costs relating to rehabilitation are many years in the future and the precise requirements this will have to be met when the removal event occurs are uncertain. Technologies and costs are constantly changing, as well as political, environmental, safety and public expectations.

The value of these provisions represents the discounted value of the present obligations to restore, dismantle and rehabilitate each well site. Significant estimation is required in determining the provisions for rehabilitation and closure as there are many transactions and other factors that will affect ultimate costs necessary to rehabilitate the sites. The discounted value reflects a combination of management's best estimate of the cost of performing the work required, the timing of the cash flows and the discount rate.

A change in any, or a combination of, the key assumptions used to determine the provisions could have a material impact on the carrying value of the provisions. The provision recognised for each site is reviewed at each reporting date and updated based on the facts and circumstances available at that time. Changes to the estimated future costs for operating sites are recognised in the statement of financial position by adjusting both the restoration and rehabilitation asset and provision.

Impairment of non-current assets

Assets are impaired when there are events or changes in circumstances that indicate the carrying values of the assets are not recoverable. The ultimate recoupment of the value of resource property costs and

property plant and equipment is dependent on successful development and commercial exploitation, or alternatively, sale, of the underlying properties, all of which are subject to numerous variables. The Group undertakes at least on an annual basis, a comprehensive review for indicators of impairment of these assets. Should an impairment indicator exist, the Cash Generating Unit is tested for impairment. There is significant estimation involved in determining the inputs and assumptions used in determining the recoverability amounts.

The key areas of estimation involved in determining recoverable amounts include:

- Recent drilling results and reserves and resources estimates
- Environmental issues that may impact the underlying licences
- The estimated market value of assets at the review date
- Fundamental economic factors such as the gas price and current and anticipated operating costs in the industry
- Future production rates and sales prices

The estimated value in use is based on the present values of expected future cash flows net of disposal costs. The expected future cash flows used for impairment analyses are based on judgmental assessments of future production volumes, prices and costs, considering available information at the date of review and are discounted by using a rate that considers the risks specific to the asset.

The pre-tax discount rate used for impairment purposes is 10.0% and which reflects the current market valuation of the time value of money and of the specific risks of the asset not reflected in the estimate of the future cash flows. Further details are in note 16.

Recoverability of deferred tax asset

The recoverability of deferred tax assets is dependent on the availability of profits in future years. The Group undertakes a forecasting exercise at each reporting date to assess its expected utilisation of these losses.

The key areas of estimation involved in determining the forecasts include:

- Future production rates
- Economic factors such as the gas price and current and anticipated operating costs in the industry
- Capital expenditure expected to be incurred in the future

A change in any, or a combination of, the key assumptions used to determine the estimates could have a material impact on the carrying value of the deferred tax asset. Changes to estimates are recognised in the period in which they arise.

Carrying value of inventory

Historically inventory has been recorded at cost. In preparation of the year-end accounts, Management commissioned an independent

appraisal of the Company's inventory. As a direct result, at 31 December 2017 the inventory balance represents the market value.

NOTE 3: SIGNIFICANT ACCOUNTING POLICIES

The Group has consistently applied the accounting policies set out in notes below to all periods presented in the financial statements. The Company's figures are for 14 months being the first reporting period for the Company from incorporation to 31 December 2017. See note 3a) for the explanation as to their being comparatives for the group.

All new and amended accounting standards and Interpretations effective from 1 January 2017 have been adopted.

(a) PRINCIPLES OF CONSOLIDATION

(i) Group reorganisation

In November 2016 a new parent company, Saffron Energy Plc, was introduced for the purposes of acquiring Northsun Italia S.p.A (the subsidiary) from the groups ultimate controlling entity Po Valley Energy Ltd.

The introduction of a new holding company constitutes a Group reconstruction and has been accounted for using merger accounting principles. Therefore, although the Group reconstruction become effective in January 2017, the consolidated financial statements of Saffron Energy Plc are presented as if Saffron Energy Plc had always been part of the same Group. Accordingly, the results of the Group for the entire year ended 31 December 2017 are shown in the consolidated financial statements and the comparative figures for the year ended 31 December 2016 are also prepared on this basis.

The consolidated financial statements include the results of Saffron Energy Plc and its subsidiary undertaking made up to the same accounting date. All intra-Group balances, transactions, income and expenses are eliminated in full on consolidation.

(ii) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

Investments in subsidiaries are carried at cost less any impairment losses.

(iii) Joint arrangements

The Group classifies its interests in joint arrangements as either joint operations or joint ventures (see below) depending on the Group's rights to the assets and obligation for the liabilities of the arrangements. When making this assessment, the Group considers the structure of the arrangements, the legal form of any separate vehicles, the contractual terms of the arrangements and other facts and circumstances.

Joint operation - when the Group has rights to the assets, and obligations for the liabilities, relating to an arrangement, it accounts for each of its assets, liabilities and transactions, including its share of those held or incurred jointly, in relation to the joint operation.

(iv) Transactions eliminated on consolidation

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

(b) TAXATION

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity or in comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the date of the statement of financial position, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of assets or liabilities that affect neither accounting nor taxable profit; and differences relating to investments in subsidiaries to the extent that the Company is able to control the timing of the reversal of the temporary difference and it is probable that they will not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using tax rates enacted at the date of the statement of financial position.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Judgement is required to determine which arrangements are considered to be a tax on income as opposed to an operating cost. Judgement is also required

to determine whether deferred tax assets are recognised in the statement of financial position. Deferred tax assets, including those arising from unutilised tax losses, require management to assess the likelihood that the Company will generate sufficient taxable earnings in future periods, in order to utilise recognised deferred tax assets.

Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These estimates of future taxable income are based on forecast cash flows from operations (which are impacted by production and sales volumes, oil and natural gas prices, reserves, operating costs, decommissioning costs, capital expenditure, dividends and other capital management transactions) and judgement about the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realise the net deferred tax assets recorded at the reporting date could be impacted. In addition, future changes in tax laws in the jurisdictions in which the Company operates could limit the ability of the Company to obtain tax deductions in future periods.

(c) IMPAIRMENT

(i) Financial assets (including receivables)

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost that are debt securities, the reversal is recognised in profit or loss.

(ii) Non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset (or CGU) may be impaired. Management has assessed its CGUs as being an individual field, which is the lowest level for which cash inflows are largely independent of those of other assets.

If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's or CGU's recoverable amount. The recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal (FVLCD) and value in use (VIU). The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the asset is tested as part of a larger CGU to which it belongs. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset/CGU is considered impaired and is written down to its recoverable amount.

The Group bases its impairment calculation on detailed budgets and forecasts, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecasts generally cover the forecasted life of the CGUs. VIU does not reflect future cash flows associated with improving or enhancing an asset's performance.

Impairment losses of continuing operations, including impairment of inventories, are recognised in the statement of profit or loss and other comprehensive income in those expense categories consistent with the function of the impaired asset.

For assets/CGUs, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's/CGU's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset/CGU does not exceed either its recoverable amount, or the carrying amount that would have been determined, net of depreciation/amortisation, had no impairment loss been recognised for the asset/CGU in prior years. Such a reversal is recognised in the statement of profit or loss and other comprehensive income.

(d) PROPERTY PLANT & EQUIPMENT

(i) Recognition and measurement

Items of property, plant and equipment are recorded at cost less accumulated depreciation, accumulated impairment losses and pre-commissioning revenue and expenses.

The cost of plant and equipment used in the process of gas extraction are accounted for separately and are stated at cost less accumulated depreciation and impairment costs.

Cost includes expenditure that is directly attributable to acquisition of the asset.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised within "other income" in profit or loss.

(ii) Subsequent expenditure

Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with expenditure will flow to the Group.

(iii) Depreciation

Gas producing assets

When the gas plant and equipment is installed ready for use, cost carried forward will be depreciated on a unit-of-production basis over the life of the economically recoverable reserve. The depreciation rate of gas plant and equipment incurred in the period for each project in production phase is as follows:

	2017	2016
Bezecca	3.40%	-
Sillaro	5.23%	11.29%

Oil and gas properties are depreciated using the UOP method over total proved developed and undeveloped hydrocarbon reserves. This results in a depreciation/amortisation charge proportional to the depletion of the anticipated remaining production from the field.

The life of each item, which is assessed at least annually, has regard to both its physical life limitations and present assessments of economically recoverable reserves of the field at which the asset is located. These calculations require the use of estimates and assumptions, including the amount of recoverable reserves and estimates of future capital expenditure. The calculation of the UOP rate of depreciation/amortisation will be impacted to the extent that actual production in the future is different from current forecast production based on total proved reserves, or future capital expenditure estimates change.

Changes to proven reserves could arise due to changes in the factors or assumptions used in estimating reserves, including:

- The effect on proved reserves of differences between actual commodity prices and commodity price assumptions
- Unforeseen operational issues.

Other property, plant and equipment

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. The depreciation will commence when the asset is installed

ready for use.

The estimated useful lives of each class of asset fall within the following ranges:

Office furniture & equipment 3 - 5 years

The residual value, the useful life and the depreciation method applied to an asset are reviewed at each reporting date.

(e) FINANCIAL INSTRUMENTS

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings and trade and other payables.

Non-derivative financial instruments are recognised initially as fair value plus, for instruments not at fair value through profit and loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e. the date the Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Group's obligation specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(ii) Share Capital

Ordinary Shares

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

Dividends

Dividends are recognised as a liability in the period in which they are declared.

(f) RESOURCE PROPERTY COSTS

Resource property costs are accumulated in respect of each separate

area of interest.

(i) Exploration properties

Exploration properties are carried at date of statement of financial position at cost less accumulated impairment losses. Exploration properties include the cost of acquiring resource properties, mineral rights and exploration, evaluation expenditure incurred subsequent to acquisition of an area of interest.

Exploration properties are carried forward where right of tenure of the area of interest is current and they are expected to be recouped through sale or successful development and exploitation of the area of interest, or, where exploration and evaluation activities in the area of interest have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves and active and significant operations in, or in relation to, the area of interest are continuing.

Exploration and evaluation assets are assessed for impairment if sufficient data exists to determine technical feasibility and commercial viability or facts and circumstances suggest that the carrying value amount exceeds the recoverable amount.

Exploration and evaluation assets are tested for impairment when any of the following facts and circumstances exist:

- The term of the exploration license in the specific area of interest has expired during the reporting period or will expire in the near future, and is not expected to be renewed;
- Substantive expenditure on further exploration for an evaluation of mineral resources in the specific area are not budgeted nor planned;
- Exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the decision was made to discontinue such activities in the specific area; or
- Sufficient data exists to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

Areas of interest which no longer satisfy the above policy are considered to be impaired and are measured at their recoverable amount, with any subsequent impairment loss recognised in the profit and loss.

(ii) Production properties

Production properties are carried at balance sheet date at cost less accumulated amortisation and accumulated impairment losses. Production properties represent the accumulation of all exploration, evaluation and development and acquisition costs in relation to areas of interest in which production licences have been granted and the related

project has moved to the production phase.

Amortisation of costs is provided on the unit-of-production basis, separate calculations being performed for each area of interest. The unit-of-production base results in an amortisation charge proportional to the depletion of economically recoverable reserves. The amortisation rate incurred in the period for each project in production phase is as follows:

	2017	2016
Bezecca	3.40%	-
Sillaro	5.23%	11.29%

Amortisation of resource properties commences from the date when commercial production commences.

When the value of the exploitable production property has diminished below cost, the asset is written down to its recoverable amount.

The Group reviews the recoverable amount of resource property costs at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated

(g) RESTORATION PROVISIONS

Long term environmental obligations are based on the Group's environmental and rehabilitation plans, in compliance with current environmental and regulatory requirements.

Full provision is made based on the net present value of the estimated cost of restoring the environmental disturbances that have occurred up to the date of the statement of financial position and abandonment of well sites and production fields. Increases due to additional environmental disturbances, relating to the development of an asset, are capitalised and recorded in resource property costs, and amortised over the remaining useful lives of the areas of interest. The net present value is determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and risks specific to the liability.

Annual increases in the provision relating to the unwind of the discount rate are accounted for in the statement of profit or loss as finance expense.

The estimated costs of rehabilitation are reviewed annually and adjusted against the relevant rehabilitation asset, as appropriate for changes in legislation, technology or other circumstances including drilling activity and are accounted for on a prospective basis. Cost estimates are not reduced by potential proceeds from the sale of assets.

(h) EMPLOYEE BENEFITS

(i) Long-term service benefits

The Group's net obligation in respect of long-term service benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using expected future increases in wage and salary rates including on-costs and expected settlement dates and is discounted using the rates attached to the Government bonds at the balance sheet date which have maturity dates approximating to the terms of the Group's obligations.

(ii) Wages, salaries, annual leave, sick leave and non-monetary benefits

Liabilities for employee benefits for wages, salaries, annual leave and sick leave that are expected to be settled within 12 months of the reporting date represent present obligations resulting from employees services provided to reporting date, are calculated at undiscounted amounts based on remuneration wage and salary rates that the Group expects to pay as at reporting date including related on-costs, such as workers compensation insurance and payroll tax.

(iii) Superannuation

The Group contributes to defined contribution superannuation plans. Contributions are recognised as an expense as they are due.

(i) REVENUE

Revenues is measured at fair value of the consideration received or receivable, net of the amount of value added tax ("VAT") payable to the taxation authority. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs can be estimated reliably, there is no continuing management involved with the goods, and the amount of revenue can be measured reliably.

Gas sales revenue is recognised when control of the gas passes at the delivery point. Proceeds received in advance of control passing are recognised as unearned revenue.

(j) INVENTORY - WELL EQUIPMENT

Inventory is comprised of well equipment expected to be utilised in future development of known wells with specific characteristics. Inventory is carried at cost less impairment. Any impairment on value is taken to profit and loss.

(k) CHANGES TO ACCOUNTING POLICIES, DISCLOSURES, STANDARDS AND INTERPRETATIONS

International Financial Reporting Standards and Interpretations issued but not effective for the reporting period ending 31 December 2017 which are relevant to the Group are outlined below:

Reference	Title	Summary	Application date of standard	Impact on financial statements	Application date for Group
IFRS 9	Financial Instruments	<p><i>Classification and measurement</i></p> <p>In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 and all previous versions of IFRS 9. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required, but the provision of comparative information is not compulsory. The main changes to the Group accounting policy are described below:</p> <ul style="list-style-type: none"> · Financial assets that are debt instruments will be classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows. 	1 January 2018	The application of this new standard will not have a material impact on the financial report, as the classification of the debt instruments will not change.	1 January 2018
IFRS 9	Financial Instruments	<p><i>Financial liabilities</i></p> <p>Changes introduced by this standard in respect of financial liabilities are limited to the measurement of liabilities designated at fair value through profit or loss (FVPL) using the fair value option. Where the fair value option is used for financial liabilities, the change in fair value is to be accounted for as follows:</p> <ul style="list-style-type: none"> - The change attributable to changes credit risk are presented in other comprehensive income (OCI) - The remaining change is presented in profit or loss <p>The Standard also removes the volatility in profit or loss that was caused by changes in the credit risk of liabilities elected to be measured at fair value. This change in accounting means that gains or losses attributable to changes in the entity's own credit risk would be recognised in OCI. These amounts recognised in OCI are not recycled to profit or loss if the liability is ever repurchased at a discount.</p> <p><i>Impairment</i></p> <p>The standard introduces a new expected-loss impairment model that will require more timely recognition of expected credit losses. Specifically, the new Standard requires entities to account for expected credit losses from when financial instruments are first recognised and to recognise full lifetime expected losses on a more timely basis.</p>	1 January 2018	The application of this new standard will not have a material impact on the financial report as the Group does not hold FVPL liabilities.	1 January 2018

Re fer en ce	Title	Summary	Application date of standard	Impact on financial statements	Application date for Group
IFRS 15	Revenue from contracts with customers	The Standard replaces IAS 18 and specifies the accounting treatment for revenue arising from contracts with customers. The core principle is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps: (a) Step 1: Identify the contract(s) with a customer (b) Step 2: Identify the performance obligations in the contract (c) Step 3: Determine the transaction price (d) Step 4: Allocate the transaction price to the performance obligations in the contract (e) Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation	1 January 2018	The application of this Standard will not have a material impact on the financial report as the transaction price and performance obligations for the Group's revenue from contracts as determined under IFRS15 criteria will be the same as under the current standard IAS18.	1 January 2018

(I) SHARE-BASED PAYMENTS

Share based payments relate to transactions where the Group receives services and the terms of the arrangements include payment of a part or whole of consideration by issuing shares to the counterparty. The Group measures the services received from non-employees, and the corresponding increase in equity, at the fair value of the goods or services received. When the transactions are with the employees, the fair value is measured by reference to the fair value of the shares issued.

NOTE 4: FINANCIAL REPORTING BY SEGMENTS

The Group reportable segments as described below are the Group's strategic business units. The strategic business units are classified according to field licence areas which are managed separately. All strategic business units are in Italy. For each strategic business unit, the CEO reviews internal management reports on a monthly basis. Exploration, Development and Production gas and oil are the operating segments identified for the Group.

	Exploration		Development and Production		Total	
	31 December 2017 €'000	31 December 2016 €'000	31 December 2017 €'000	31 December 2016 €'000	31 December 2017 €'000	31 December 2016 €'000
External revenues	-	-	1,389	701	1,389	701

Segment loss before tax	(775)	(287)	(4,060)	(4,945)	(4,835)	(5,232)
Depreciation and amortisation	-	-	(256)	(591)	(256)	(591)
Impairment on resource property costs	(771)	(287)	(4,075)	(4,615)	(4,847)	(4,902)
	31 December	31 December	31 December	31 December	31 December	31 December
	2017	2016	2017	2016	2017	2016
	€'000	€'000	€'000	€'000	€'000	€'000
Reportable segment assets:						
Resource property costs	1,745	5,003	159	599	1,904	5,602
Property, Plant & Equipment	-	-	2,141	2,325	2,141	2,325
Receivables	-	-	267	145	267	145
Inventory	-	-	252	732	252	732
Capital expenditure	165	179	783	64	948	243
(Decrease) / increase in rehabilitation assets	(131)	49	(86)	47	(217)	96
Reportable segment liabilities	(1,156)	(2,214)	(4,897)	(3,938)	(6,054)	(6,152)

Reconciliation of reportable segment profit or loss, assets and liabilities

	31 December	31 December
	2017	2016
	€'000	€'000
Profit or loss:		
Total profit loss for reportable segments	(4,835)	(5,232)
<i>Unallocated amounts:</i>		
Net finance income / (expense)	(248)	(71)
Corporate expenses	(1,944)	(1,169)
Loss before income tax	(7,027)	(6,472)
Assets:		
Total assets for reportable segments	4,564	8,828
Other assets	2,836	2,325
Total assets	7,400	11,153
Liabilities:		
Total liabilities for reportable segments	(6,054)	(6,152)
Other liabilities	(886)	(2,281)
Total liabilities	(6,940)	(8,433)

Geographical Information

All of the Group's revenue is currently attributed to gas sales in Italy through an off-take agreement with Shell Italia. For the current year, the Group's only customer contributed the entire revenue.

NOTE 5: REVENUE

	Group	31
	31	December
	December	2016
	2017	€'000
	€'000	€'000
Sales Revenue - Gas	1,389	701

NOTE 6: DEPRECIATION AND AMORTISATION

	Group 31 December 2017 €'000	31 December 2016 €'000
<i>Sillaro:</i>		
Depreciation of production property, plant & Equipment	(115)	(194)
Amortisation of Resource Property Costs	(31)	(397)
<i>Bezzecca:</i>		
Depreciation of production property, plant & Equipment	(5)	-
Amortisation of Resource Property Costs	(105)	-
<i>Corporate:</i>		
Other property, plant & equipment	(6)	(10)
Total Depreciation and Amortisation	(262)	(601)

NOTE 7: CORPORATE OVERHEADS

	Group 31 December 2017 €'000	31 December 2016 €'000
Company administration and compliance	197	117
Professional fees	679	118
Office costs	146	120
Travel and entertainment	75	41
Other expenses	102	210
	1,199	606

NOTE 8: EMPLOYEES AND DIRECTORS

	Group 31 December 2017 €'000	31 December 2016 €'000
Wages and salaries	525	591
Contributions to defined contribution superannuation plans and social security costs	61	132
Directors remuneration	131	-
Share based payments	57	-
Total employee benefits	774	723
Average number of employees	5	5

NOTE 9: IMPAIRMENT LOSSES

	Group	31	Company
	31 December	December	31
	2017	2016	December
	€'000	€'000	2017
			€'000
Inventory written down	481	-	-
Production property, plant and equipment (Note 15)	71	-	-
Resource property costs - exploration (Note 16)	768	-	-
Resource property costs - production (Note 16)	3,524	4,615	-
Impairment of investments in subsidiary	-	-	4,363
	4,844	4,615	4,363

NOTE 10: NET FINANCE COSTS

	Group	
	31 December	31 December
	2017	2016
	€'000	€'000
Interest expense	47	2
Unwinding of discount on restoration provision	58	69
Foreign exchange losses (net)	147	-
Net finance costs	252	71

NOTE 11: AUDITORS' REMUNERATION

Services provided by the Group's auditor and its associates

During the year the Group (including its overseas subsidiaries) obtained the following services from the Company's auditor and its associates:

	31 December	31
	2017	December
	€'000	2016
		€'000
Fees payable to the Company's auditor for the audit of the Parent Company and consolidated financial statements	15	-

NOTE 12: INCOME TAX

12.1 INCOME TAX EXPENSE

Numerical reconciliation between aggregate tax expense recognised in the

statement of profit or loss and other comprehensive income and tax expenses
calculated per the statutory income tax rate

	Group	31
	31 December	December
	2017	2016
	€'000	€'000
Loss for the year before tax	(7,027)	(6,472)
Income tax benefit using the Group tax rate of 24%	1,686	1,553
Current year losses and temporary differences for which no deferred tax asset was recognised	(613)	(204)
Changes in temporary differences	(154)	(393)
Other non-deductible expenses	(919)	(450)
Income tax expense / (benefit)	-	506

12.2 DEFERRED TAX ASSETS

Deferred tax assets have been recognised in respect of tax losses and temporary differences based on management assessment that future taxable profit will be available against which the Group can utilise the benefits therefrom. Deferred tax assets amounting to €1,994,913 have been recognised in relation to the Italian subsidiary's available tax losses and temporary differences.

NOTE 13: EARNINGS PER SHARE

	31 December	31 December
	2017	2016
Basic loss per share (€)	(0.046)	(0.85)
Diluted loss per share (€)	(0.046)	(0.85)

The calculation of basic loss per share was based on the loss attributable to shareholders of €7,027,000 (2016: €5,966,000) and a weighted average number of ordinary shares outstanding during the year of 152,665,466 (2016: 6,998,872).

On 7 March 2018, the Company announced GBP13.4 million share subscription was fully subscribed. The issue of shares as a result will impact the loss per share by dilution.

NOTE 14: TRADE AND OTHER RECEIVABLES

	Group	31 December	Company
	31 December	2016	31 December
	2017	2016	2017
	€'000	€'000	€'000
Trade receivables from gas sales customers	126	69	-
Accrued revenue for gas sales	159	76	-
Non-profit taxes receivable	315	64	27
Other receivables	64	32	60
	664	241	87

NOTE 15: PROPERTY, PLANT & EQUIPMENT

	Group	31 December
	31 December	2016
	2017	2016
	€'000	€'000
Office Furniture & Equipment:		
<i>At cost</i>	202	200
<i>Accumulated depreciation</i>	(195)	(189)

	7	11
Gas producing plant and equipment		
<i>At cost</i>	7,673	7,667
<i>Accumulated depreciation</i>	(5,532)	(5,341)
	2,141	2,326
	2,148	2,337
	Group	
	31 December	31 December
	2017	2016
	€'000	€'000
Reconciliations:		
Reconciliation of the carrying amounts for each class of Plant & equipment are set out below:		
<i>Office Furniture & Equipment:</i>		
Carrying amount at beginning of period	11	21
Acquisition of assets	2	-
Depreciation expense	(6)	(10)
Carrying amount at end of period	7	11
<i>Gas Producing plant and equipment:</i>		
Carrying amount at beginning of period	2,325	1,903
Acquisition of assets	-	633
Additions	6	-
Depreciation expense	(119)	(210)
Impairment loss	(71)	-
Carrying amount at end of period	2,141	2,326
	2,148	2,337

NOTE 16: RESOURCE PROPERTY COSTS

	Group	
	31 December	31 December
	2017	2016
	€'000	€'000
Resource Property costs		
Exploration	1,745	5,003
Production	159	599
	1,904	5,602

Reconciliation of carrying amount of resource properties:

	Group	
	31 December	31 December
	2017	2016
	€'000	€'000
<i>Exploration Phase</i>		
of Carrying amount at beginning of period	5,003	3,535
Acquisition of assets	-	268
Exploration expenditure	165	1,454

Transfer to Production phase	(2,524)	33
Change in estimate of rehabilitation assets	(131)	-
Impairment losses	(768)	(287)
Carrying amount at end of period	1,745	5,003

Resource property costs in the exploration and evaluation phase have not yet reached a stage which permits a reasonable assessment of the existence of, or otherwise, economically recoverable reserves. The ultimate recoupment of resource property costs in the exploration phase is dependent upon the successful development and exploitation, or alternatively sale, of the respective areas of interest at an amount greater than or equal to the carrying value.

During the period, the Group completed the development of the Bezzecca field. Accumulated costs relating to this field were transferred to production phase assets as production commenced in the second quarter of the year.

The Group reviewed the carrying value of its assets and cash generating units using a Value in Use CGU; in particular a valuation on Sant' Alberto was calculated by CGG Services (UK) Limited for the purposes of the Admission Document used for the restoration of trading of Saffron Energy Plc on the AIM Board of the LSE. As a result of this assessment, the recoverable value of Sant' Alberto at 31 December 2017 was €1.7million resulting in an impairment of €768k being recognised.

	Group 31 December 2017	31 December 2016
	€'000	€'000
<i>Production Phase</i>		
Carrying amount at beginning of period	599	3,350
Additions	782	64
Transfer from exploration	2,524	-
Acquisition of interest from related party	-	2,151
Change in estimate of rehabilitation assets	(86)	30
Amortisation of producing assets	(136)	(381)
Impairment loss	(3,524)	(4,615)
Carrying amount at end of period	159	599

The Group reviewed the carrying value of its assets and cash generating units using a Value in Use CGU valuation. A valuation on Sillaro and Bezzecca fields was calculated by CGG Services (UK) Limited for the purposes of the Admission Document used for the restoration of trading of Saffron Energy Plc on the AIM Board of the LSE.

The parameters used in the valuation model were as follows:

The discount rate applied was 10% post tax (10% at 31 December 2016). As per price assumptions, a price deck provided by specialist advisors CGG Services (UK Limited) for the Competent Persons Report used for the Admission Document referred above. The complete Competent Persons Report is available in the Admission Document of Saffron Energy Plc which can be downloaded on the Company's web site www.saffronenergy.co.uk.

As a result of the revised assessment, the recoverable amounts of the cash generating units (which includes production plant and equipment) of Sillaro was €2.0 million and of Bezzecca was €0.3 million resulting in impairment of €3,595k being recognised in the Financial Statements (€71k of this amount was recognised against the production property, plant and equipment of Sillaro - Note 15.)

NOTE 17: TRADE AND OTHER RECEIVABLES

	Group	31 December	31 December	Company
	2017	2016	2016	2017
	€'000	€'000		€'000
Trade receivables	285	156		-
VAT and other taxes	314	78		27
Other receivables	65	7		60
	664	241		87

NOTE 18: TRADE AND OTHER PAYABLES

	Group	31 December	31 December	Company
	2017	2016	2016	2017
	€'000	€'000		€'000
Trade payables	1,152	1,181		137
Wages payable and related taxes	40	23		-
Other payables	205	213		-
Accrued expenses	703	210		244
	2,100	1,627		382

NOTE 19: PROVISIONS

	Group	31 December	31 December
	2017	2016	2016
	€'000	€'000	€'000
Current:			
Employee leave entitlements	38	31	
Other provisions	-	20	
	38	51	
Non-Current:			
Restoration provision	4,802	4,962	
Reconciliation of restoration provision:			
Opening balance	4,962	3,616	
Increase in provision by acquisition of interest from related party	-	1,214	
Increase in provision from unwind of discount rate	57	63	
Changes in provision due to revised estimates (Note 16)	(217)	69	
Closing balance	4,802	4,962	

NOTE 20: SHARE CAPITAL AND SHARE PREMIUM

	31			31
	December	Share	Share	December
	2017	Capital	Premium	2017
	Number	€'000	€'000	Total
	000's			€'000
At 31 December 2015	19,231	10,000	-	10,000
Issued following conversion of liabilities	12,025	6,253		6,253

Issued for acquisition of assets	5,529	2,875		2,875
At 31 December 2016*	36,785	19,128	-	19,128
Issued on incorporation ⁽ⁱ⁾	50,000	60	-	60
Issued for the acquisition of subsidiary	50,000	58	9,942	10,000
Group restructure (Note 21)	(36,785)	(19,128)	-	(19,128)
Issued for services rendered	3,720	4	210	214
Issued for cash on subscription on AIM listing	50,000	59	2,884	2,943
Issued for services rendered	938	1	42	43
Issued for cash on private placement	31,250	35	1,384	1,419
Share issue costs	-		(714)	(714)
Closing balance - 31 December 2017	185,908	217	13,748	13,965

- (i) 50,000 shares were issued for cash on 10 November 2016 and on 9 December 2016, the total shares on issue were subdivided into 50,000,000 shares.

All ordinary shares are fully paid and carry one vote per share and the right to dividends. In the event of winding up the Company, ordinary shareholders rank after creditors. Ordinary shares have a par value of £0.001 per share.

Share premium reserve

The company has nominal share price of 0.1pence per share. Share Premium Reserve represents value of securities above nominal value.

No dividends were paid or declared during the current period.

NOTE 21: INVESTMENTS IN SUBSIDIARIES

	Company 2017 €'000
Cost	10,000
Impairment	(4,363)
Net carrying value	5,637

The Company's investments in subsidiaries include:

Name	Registered office	Nature of business	Class of shares held	% held
Northsun Italia S.p.A	Italy	Exploration	Ordinary	100%

Group reorganisation

Po Valley Energy in 2016 initiated a capital re-structuring in order to separate its existing production and near-term production assets from its longer-term development assets, with the existing production and near-term production assets being transferred to the Group via the reorganisation of the ownership of Northsun Italia S.p.A.

In January 2017, the Company acquired 100 percent of the shares in Northsun

Italia S.p.A from Po Valley Energy Ltd. Consideration of €10,000,000 for the acquisition was settled by the issue of 50,000,000 ordinary shares at €0.0175 each. The transaction resulted in the recognition of a merger reserve of €9,128,000 for the group being the difference between the value of shares issued and the nominal value of the subsidiary's shares received.

NOTE 22: FINANCIAL INSTRUMENTS

Carrying amount versus fair values

The fair values of financial assets and financial liabilities, together with the carrying amounts in the consolidated statement of financial position, are as follows.

31 December 2017	Carrying amount €'000	Fair value €'000
Current financial assets		
Trade and other receivables	664	664
Cash and cash equivalents	365	365
Current financial liabilities		
Trade and other payables	2,100	2,100
31 December 2016	Carrying amount €'000	Fair value €'000
Current financial assets		
Trade and other receivables	240	240
Cash and cash equivalents	107	107
Current financial liabilities		
Trade and other payables	1,627	1,627
Short term borrowings	802	346

Determination of fair values

The carrying value of cash and cash equivalents, trade and other receivables, trade and other payables approximate their fair value.

The Group does not have any other financial instruments.

Financial risk management

Exposure to credit, market and liquidity risks arise in the normal course of the Group's business.

This note presents information about the Group's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and the management of capital.

Risk recognition and management are viewed as integral to the Group's objectives of creating and maintaining shareholder value, and the successful execution of the Group's strategies in gas exploration and development. The

Board as a whole is responsible for oversight of the processes by which risk is considered for both ongoing operations and prospective actions. In specific areas, it is assisted by the Parent's Audit and Risk Committee.

Management is responsible for establishing procedures which provide assurance that major business risks are identified, consistently assessed and appropriately addressed.

(i) Credit risk

The Group is not exposed to significant credit risk. Credit risk with respect to cash is held with recognised financial intermediaries with acceptable credit ratings.

The Group has limited its credit risk in relation to its gas sales in that all sales transactions fall under an offtake agreement with Shell Italia which expires in October 2018. Shell currently has an option to extend the contract a second Gas Year from October 2018 to September 2019.

The Group has a concentration of credit risk exposure to its one customer (Shell Italia). Payment terms are 35 days and the customer has an investment grade credit rating.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset as shown in the table above.

(ii) Market Risk

Interest rate risk

The Group is primarily exposed to interest rate risk arising from cash and cash equivalents that are interest-bearing.

Currency risk

The Group is exposed to currency risk in respect to monetary assets and liabilities held in currencies other than Euro. The currency giving rise to this risk is primarily Pound Sterling.

	Group	
	2017	2016
Amounts receivable/(payable) in foreign currency other than functional currency:	€'000	€'000
Cash	262	-
Current - Payables	(137)	-
Net Exposure	125	-

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	2017	2016	2017	2016
Pound Sterling (£)	1.142	-	1.126	-

Sensitivity Analysis

A 5 percent strengthening of the Pound Sterling (£) against the Euro (€) at 31 December would have increased (decreased) equity and profit and loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. There were no material balances in

2016 that would impact on the currency risk.

	Group Profit or loss €'000	Equity €'000
31 December 2017		
Pound Sterling (£) to Euro (€)	6	-

A 5 percent weakening of the Pound Sterling (£) against the Euro (€) at 31 December would have the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

(iii) Capital Management

The Group's policy is to maintain a strong capital base so as to maintain creditor confidence and to sustain future development of the business, safeguard the Group's ability to continue as a going concern and provide returns for shareholders. The Group currently does not hold any debt instruments. Capital is maintained from issue of new shares (note 20).

The Group is not subject to externally imposed capital requirements.

(iii) Liquidity Risk

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due.

Refer to the Going Concern note 2(c) for further commentary

NOTE 23: COMMITMENTS

The Italian oil and gas industry operates under a "drill or drop" regime whereby companies are obligated to carry out a work program filed and agreed with the Italian Ministry of Economic Development. The work program can only be carried out however when environmental (and other permitting) approval is received for the various activities. There are no mandatory work requirements for 2018 (the same as was the case for 2017).

NOTE 24: SHARE BASED PAYMENTS

The company issued the following shares in lieu of payments for services rendered:

	No of shares '000s	Value of service €'000
Recognised in profit and loss and other comprehensive income:		
Sara Edmondson - bonus for completion of AIM listing	1,000	57
Spencer Davey - consultant to the Company	1,000	57
Cassiopeia - for services provided	720	41
	2,720	155

Recognised as share issue costs in equity:		
Turner Pope - broker remuneration for completion of AIM listing	1,000	57
Turner Pope - for broker fees	938	42
	1,938	99

NOTE 25: JOINT OPERATIONS

The Group's interests in joint arrangements at 31 December 2017 are as follows:

Joint Operation	Principal place of business	Manager	Group's Interest	Principal Activity (Exploration)
Cascina Castello Production licence	Italy	Northsun Italian S.p.A	90%	Gas

The Group has a farm-out agreement with Petrorep Italiana S.p.A ('Petrorep') which permits Petrorep to earn a 10% interest in the Cascina Castello Production licence. In exchange for a 10% economic interest, Petrorep will commit to the first €600,000 (plus VAT) in capital expenditure for the development of the Bezecca field (located in within the above licence). Contributions of €128,314 have been made by Petrorep for the year to 31 December 2017 (2016: \$521,741) in respect of this commitment

NOTE 26: RELATED PARTY DISCLOSURES

Directors' remuneration is disclosed on page 12.

The loan of €3,124,000 advanced from the Company to NSI is unsecured, interest free and does not have fixed terms of repayment.

The Group had received short term funding from third parties related to its ultimate controlling party (Po Valley Energy Ltd) during the year. Loans were on normal commercial terms with interest charged at 10% p.a. There were no amounts payable as at 31 December 2017 (2016: €346,000). Interest paid during the period amounted to €47,228.

All Group's borrowing were from the ultimate controlling party. The movement in liabilities reconciles to cash flows arising from financing activities as follows:

1-Jan-17	Cash flows	Non-cash changes		31-Dec-17
€'000s	€'000s €	Foreign exchange movements	Contribution to equity	€'000s
		€'000s	€'000s	

Long-term borrowings	1,446	(645)	-	(802)	-
Short-term borrowings	346	(347)	1	-	-
Total	1,792	(991)	1	(802)	-

NOTE 27: ULTIMATE CONTROLLING PARTY

The Group's ultimate controlling party at 31 December 2017 is Po Valley Energy Ltd, an Australian public company listed on the Australian Securities Exchange which holds 50% of the Company's shares.

NOTE 28: SUBSEQUENT EVENTS

Post period end and in support of the proposed merger, new Board and launch of international growth strategy the Company announced it had secured conditional funding of £14,000,000. This was corner-stoned by new investor CIP Merchant Capital Limited. The Company has closed a firm placing raising £561,137.74 with CIP in January 2018 and the balance of £13,438,862.30 remains conditional only subject to shareholder approval which is being sought contemporaneously with the approval for the proposed merger.

Other than matters already disclosed in the financial statements, there were no other events between the end of the half-year and the date of this report that, in the opinion of the Directors, affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group.

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